

**COMMONWEALTH OF KENTUCKY  
ENVIRONMENTAL AND PUBLIC PROTECTION CABINET  
OFFICE OF FINANCIAL INSTITUTIONS  
AGENCY CASE NO. 2007-AH-907**

Office of Financial Institutions

PETITIONER

vs.

Mid-America Energy, Inc.  
Gary M. Milby

RESPONDENTS

**DEFAULT ORDER AGAINST  
MID-AMERICA ENERGY, INC. AND GARY MILBY**

\* \* \* \* \*

1. On October 21, 2007, counsel for the Office of Financial Institutions (Office) filed an Administrative Complaint against Respondents alleging violations of the Securities Act of Kentucky (Act), KRS Chapter 292.
2. The Complaint alleges that Respondents unlawfully issued and sold securities in Kentucky through an agent.
3. Petitioner sent copies of the Complaint by certified mail to Respondents' last address on file with the Petitioner and to all addresses known to the Petitioner as addresses of Respondents. All of these certified mailings were returned undelivered. Petitioner also sent a copy of the Complaint by certified mail to an attorney known to be representing Respondent Milby in a civil action in Kentucky. The Petitioner received the signed green card "receipt" for this mailing on December 12, 2007. Petitioner has not received a response to the Complaint from Respondents nor have Respondents otherwise requested a hearing in this matter.

## FINDINGS OF FACT

The Executive Director of the Office makes the following findings of fact:

4. In September and October 2005, Respondents through an agent offered and sold to Kentucky investors, securities in the form of partnership units of Black Gold Oil #1, LLP, Black Gold Oil #2, LLP, and Black Gold Oil #3, LLP.
5. Black Gold Oil #1, Black Gold Oil #2, and Black Gold Oil #3 (collectively the "Black Gold partnerships") are each Tennessee limited liability partnerships formed to drill, test, complete, and operate oil wells in Kentucky. Respondent Mid-America is the managing partner of all three Black Gold partnerships. Respondent Milby is the President and owner of Mid-America.
6. Respondents mailed information relative to an investment in the Black Gold partnerships to the Kentucky investors at their residence in Kentucky. The investors accepted Respondents' offers to sell the Black Gold partnerships in Kentucky and purchased three units of each partnership.
7. Respondents advertised the availability of investments in the Black Gold partnerships and other partnerships through advertisements in USA Today and on XM Satellite Radio. Respondents provided information about specific offerings available for investment to persons who responded to the advertisements.
8. Respondents also promoted its partnerships through an internet website which contained specific information about offerings available for investment, including the Black Gold partnerships.
9. Respondent Milby was not registered in Kentucky as a broker-dealer or agent at any time relevant to this action.

10. The Black Gold partnerships were not registered in Kentucky.
11. The Respondents did not disclose the following information to the Kentucky investors in the Black Gold partnerships:
  - a. Milby filed for Chapter 7 bankruptcy in November 2003 and was discharged in March 2004.
  - b. Milby also owns Mid-America Oil and Gas, LLC, which was to drill, test, complete, and operate the wells for the Black Gold partnerships under a turnkey contract with each of the partnerships. The turnkey contract was not negotiated at arm's length and the turnkey price was not market price.
  - c. The Texas Railroad Commission filed a complaint against Milby for violations of four regulations in relation to the operation of an oil well lease in Texas. The regulatory violations were alleged to be serious and to involve threats to public health and safety.
  - d. Respondents were entitled to a significant portion of any income from the wells, in addition to their management fees and other fees associated with the drilling of the wells, even though they would not contribute funds to the drilling.
12. Respondents misrepresented information to the Kentucky investors about the Black Gold partnerships. Milby falsely stated that the wells were guaranteed, were already producing oil, would produce for 30 to 50 years, and made other misrepresentations concerning the investments.

#### CONCLUSIONS OF LAW

The Executive Director of the Office makes the following conclusions of law:

13. The units in the Black Gold partnerships sold by Respondents to the Kentucky investors are securities.
14. The advertisements in USA Today and on XM radio and the information on the internet website constitute general solicitation.
15. The securities sold by Respondents were not exempt from registration in Kentucky nor were they covered securities.
16. In violation of KRS 292.340, Respondents sold securities that were not registered under the Act nor were they exempt from registration or covered securities.
17. In violation of KRS 292.330, Respondent Milby offered and sold securities in Kentucky while not registered as a broker-dealer or agent.
18. The information contained in paragraphs eleven and twelve of this order is material information.
19. In violation of KRS 292.320, Respondents failed to disclose material information and misrepresented material information in connection with the offer and sale of securities to the Kentucky investors.

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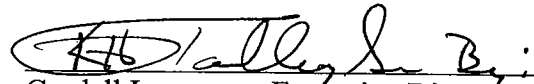
ORDER

Based on the Findings of Fact and the Conclusions of Law contained above, the Executive Director of the Office Orders that:

20. Respondents shall permanently cease and desist from selling securities in Kentucky.
21. Respondents shall offer rescission to all Kentucky investors and, if accepted by any investor, Respondents shall pay to the investor the consideration paid for the securities along with interest at the legal rate from the date of investment.

22. Respondents shall pay a fine of \$189,000.00 payable to the Kentucky State Treasurer.

Executed this 28 day of January, 2008.

  
Cordell Lawrence, Executive Director  
Office of Financial Institutions  
Commonwealth of Kentucky